

Message Text

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FM AMEMBASSY RANGOON

TO SECSTATE WASHDC 2337

C O N F I D E N T I A L SECTION 1 OF 2 RANGOON 3261

E.O. 11652: GDS

TAGS: EAID, ECON, EFIN, EALR, IBRD, BM

SUBJ: TECHNICAL LEVEL MEETING ON CONSULTATIVE GROUP FOR BURMA

REF: (A) RANGOON 3085, (B) RANGOON A-040

SUMMARY:

EMBASSY REPRESENTATIVES FROM POTENTIAL DONOR COUNTRIES MET SEPTEMBER 23 WITH GUB OFFICIALS TO DISCUSS GUB DEVELOPMENT PLANS AND THE PROPOSED CONSULTATIVE GROUP FOR BURMA. GUB SPOKESMEN RESPONDED AS THEY SAW FIT TO QUESTIONS THE VARIOUS EMBASSIES HAD SUBMITTED PRIOR TO THE MEETING AND TO ORAL QUESTIONS PUT FORTH DURING THE DISCUSSION. REPRESENTATIVES FROM OTHER EMBASSIES SHARED OUR FEELING OF DISAPPOINTMENT AT THE GUB PERFORMANCE. IN THE COURSE OF THE DISCUSSION IT BECAME CLEAR THAT RESPONSIBLE GUB OFFICIALS HAVE VIRTUALLY NO IDEA OF HOW THE CONSULTATIVE GROUP

IS TO FUNCTION; THE GUB EXPECTS THE GROUP TO PROVIDE BURMA'S ENTIRE FOREIGN EXCHANGE GAP FOR THE NEXT FIVE YEARS ON CONCESSIONAL LOAN BASIS; THERE IS LITTLE HOPE FOR PRIVATE FOREIGN INVESTMENT OR ENCOURAGEMENT OF DOMESTIC PRIVATE ENTERPRISE; GQR METHODOLOGY IN DRAWING UP ECONOMIC PROJECTIONS IS UNSOUND TO THE POINT OF EMBARRASSMENT; LITTLE THOUGHT HAS BEEN FOCUSED ON THE INFLATIONARY ASPECTS OF THE DEVELOPMENT PLAN; NO FURTHER DOCUMENTATION OR DATA WILL BE CARENTED TO POTENTIAL DONOR GOVERNMENTS PRIOR TO THE TOKYO MEETING; AND
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NO ADDITIONAL ECONOMIC REFORMS WILL BE IMMEDIATELY FORTHCOMING.

WE GAINED THE IMPRESSION THE GUB FEELS IT HAS NOW DONE ENOUGH AND IT EXPECTS THAT AFTER THE FORMALITY OF THE TOKYO MEETING FUNDS TO FINANCE THE DEVELOPMENT PROGRAM WILL SOMEHOW AUTOMATICALLY BEGIN TO FLOW INTO BURMA. WE SEE NO NEED TO CHANGE OUR EARLIER RECOMMENDATION REGARDING U.S. PARTICIPATION IN THE PROPOSED GROUPS, AND JUDGING FROM REMARKS OF OTHER EMBASSY REPRESENTATIVES WE BELIEVE THE GSC JUSTIFIABLY FACES A VERY ROUGH INTERROGATION AT THE TOKYO MEETING. END SUMMARY.

1. ON SEPT. 23, GUB CALLED A WORKING LEVEL MEETING FOR EMBASSY REPRESENTATIVES FROM POTENTIAL DONOR COUNTRIES FOR THE PROPOSED CONSULTATIVE GROUP FOR BURMA. REPRESENTATIVES FROM THE EMBASSIES OF U.S., U.K., FRANCE, FRG, CANADA, AUSTRALIA AND JAPAN ATTENDED AS WELL AS A REPRESENTATIVE FROM THE LOCAL UNDP OFFICE. GUB OFFICIALS WERE U AYE HLAING, CHAIRMAN OF THE UNION RRSBURMA BANK (CENTRAL BANK), U HLA MAUNG, DIRECTOR-GENERAL OF PLANNING, MINISTRY OF PLANNING AND FINANCE AND DR. MAUNG MYINT, DIRECTOR ECONOMIC DIVISION, MINISTRY OF FOREIGN AFFAIRS. U AYE HLAING LED THE DISCUSSION FOR THE BURMESE SIDE.

2. PRIOR TO THE MEETING THE VARIOUS EMBASSIES HAD BEEN ASKED TO SUBMIT QUESTIONS THROUGH MFA ON POINTS IN THE GUB PROGRAM AND CONSULTATIVE GROUP WHICH THEY WISHED TO HAVE CLARIFIED. MOST OF THE MEETING WAS DEVOTED TO ANSWERING THOSE QUESTIONS THE GUB SAW FIT TO ANSWER WITH SOME TIME ALLOWED FOR THE VARIOUS REPRESENTATIVES TO ASK SUPPLEMENTARY QUESTIONS.

3. MAIN POINTS THAT CAME OUT OF THE DISCUSSION WEREAS FOLLOWS:

(1) GUB HAS LITTLE IDEA OF HOW THE CONSULTATIVE GROUP IS TO FUNCTION. THE IBRD INFORMED THEM THAT AFTER THE NOVEMBER MEETING IN TOKYO, THE NEXT CONSULTATIVE GROUP MEETING WOULD TAKE PLACE ONE YEAR LATER. IN THE MEANTIME THE GUB BELIEVES IT WILL HAVE TO PROCEED AS IT HAS IN THE PAST NEGOTIATING LOANS ON A BILATERAL BASIS WITH INDIVIDUAL GOVERNMENTS AND WITH INTERNATIONAL FINANCIAL INSTITUTIONS. SAME BILATERAL PROCEDURE WILL APPLY TO NEGOTIATIONS WITH NON-MEMBERS OF GROUP (E.G. USSR AND PRC), ALTHOUGH THEY WOULD NOT BE SHOWN WHOLE FIVE-YEAR PLAN. FURTHER MECHANICS HAVE YET TO BE WORKED OUT.

(2) THE GUB EXPECTS ITS ENTIRE ESTIMATED FOREIGN EXCHANGE
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GAP FOR THE NEXT FIVE YEARS AMOUNTING TO \$995 MILLION WILL BE SUPPLIED THROUGH THE CONSULTATIVE GROUP AND ALL ECONOMIC SECTORAL PROJECTIONS PRESENTED IN THE GUB'S FIVE-YEAR DEVELOPMENT PROGRAM ARE BASED ON THIS ASSUMPTION. SUBTRACTING THOSE PROJECTS ALREADY UNDER NEGOTIATION WITH POTENTIAL GROUP MEMBERS \$600 MILLION IN "NEW" FOREIGN EXCHANGE WILL BE REQUESTED.

(3) THE GUB EXPECTS ALL LOANS TO BE ON A CONCESSIONAL BASIS AND AT PRESENT THE PLAN DOES NOT ALLOW FOR ANY PRIVATE

FOREIGN INVESTMENT. HOWEVER, IF SUFFICIENT FOREIGN ASSISTANCE IS NOT FORTHCOMING, THE GUB MIGHT CONSIDER SOME PRIVATE FOREIGN PARTICIPATION ON A CONTRACT OR PRODUCT SHARING BASIS IN CERTAIN HIGH PRIORITY PROJECTS. IT WOULD ALSO CONSIDER SOME SHORT TERM FOREIGN COMMERCIAL FINANCING AND FILL SHORTFALLS IN ANTICIPATED FOREIGN ASSISTANCE.

(4) DOMESTIC PRIVATE ENTERPRISE WILL BE ENCOURAGED ONLY IN TRANSPORT, SMALL SCALE INDUSTRIES AND AGRICULTURE. SOME LEGISLATION REGARDING THE PRIVATE SECTOR, PERHAPS INCLUDING GUARANTEES AGAINST NATIONALIZATION, MAY BE PRESENTED TO THE OCTOBER SESSION OF THE PEOPLE'S CONGRESS.

(5) GUB EXPORT PROJECTIONS OF THE COMING FIVE YEARS ARE BASED ON THE ASSUMPTION OF FAVORABLE WEATHER CONDITIONS FOR CROPS THROUGHOUT THE PERIOD AND ON THE ASSUMPTION THAT "NEW" EXPORTS SUCH AS FISH AND PETROLEUM WILL BE AVAILABLE.

(6) THE DEVELOPMENT PROGRAM IS NOT EXPECTED TO BE INFLATIONARY BECAUSE IF FOREIGN ASSISTANCE COMES UP TO ESTIMATED

LEVELS, THAT PORTION OF THE BUDGET DEFICIT TO BE FINANCED BY DOMESTIC CREDIT WOULD AMOUNT TO ONLY 2 PERCENT OF THE CURRENCY NOW IN CIRCULATION. FURTHER, AN EXPANDED IMPORT PROGRAM FOR CONSUMER GOODS WOULD HELP TO HOLD DOWN PRICES; COMMODITY LOANS WOULD BE APPRECIATED DURING THE FIVE-YEAR PLAN.

(7) FURTHER DOCUMENTATION WILL NOT BE PRESENTED TO PAGVA ANTICIPATING GOVERNMENTS PRIOR TO THE TOKYO MEETING. (COPY OF BURMA'S FIVE-YEAR DEVELOPMENT PROGRAM BEING FORWARDED.)

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TO SECSTATE WASHDC 2338

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4. COMMENT: WE FOUND THE GUB PERFORMANCE QUITE DISAPPOINTING. THE BANK CHAIRMEN ANSWERED ONLY THOSE PRIOR QUESTIONS HE CHOSE TO ANSWER AND REPLIES TO ORAL QUESTIONS FROM THE GROUP WERE USUALLY VAGUE. OUR DISAPPOINTMENT WAS SHARED BY THE REPRESENTATIVES OF THE OTHER EMBASSIES ATTENDING.

5. OBVIOUSLY THE GUB HAS DONE SO LITTLE HOMEWORK ON THE PROPOSED CONSULTATIVE GROUP THAT RESPONSIBLE OFFICIALS HAVE NO IDEA OF THE MECHANICS OF THE PROPOSED OPERATION. IN THIS RESPECT, THE IBRD APPEARS TO HAVE GIVEN LITTLE OR NO GUIDANCE TO THE BURMESE, WHICH GIVES US CAUSE TO WONDER AT THE BANK'S RELENTLESS OPTIMISM. BUT EVEN WITHOUT KNOWLEDGE OF THE MECHANISM OR HOW FUNDS ARE TO BE PLEDGED, THE BURMESE HAVE CERTAINLY STUDIED CLOSELY THE AMOUNT OF MONETARY ASSISTANCE THEY EXPECT TO RECEIVE, AND WE WERE APPALLED TO LEARN THAT THE GUB EXPECTS THE PROPOSED GROUP TO COVER BURMA'S ENTIRE FOREIGN EXCHANGE GAP FOR THE NEXT FIVE YEARS BEGINNING WITH APRIL 1, 1977, THE START OF THE BURMESE FISCAL YEAR. WE HAD HEARD THIS BEFORE (SEE REF B) BUT WERE RELUCTANT TO BELIEVE IT.

6. THE GUB PRESENTATION ON THE METHODOLOGY FOR THE FIVE-YEAR PLAN CAN ONLY BE DESCRIBED AS EMBARRASSING (THIS WAS IN RESPONSE TO A QUESTION WE HAD SUBMITTED IN WRITING). THEY HAD PICKED 1964 AS THE LAST YEAR WITH SUFFICIENT IMPORTS AND CONVERTED THE IMPORT VOLUME INTO CURRENT PRICES. THEY HAD THEN CHOSEN A LEVEL OF INVESTMENT "THAT WOULD BENEFIT
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THE COUNTRY" (NO DATA OR OTHER TYPES OF EVIDENCE WERE ADDUCED TO SUPPORT THE CHOICE OF THIS LEVEL). OTHER TARGETS WITHIN THE ECONOMY WERE THEN ADJUSTED TO ACCOMMODATE THESE TWO FIGURES.

7. THERE WAS A SIMILARLY DESULTORY QUALITY IN THE DISCUSSION OF INFLATION (WHICH IS DISCUSSED AT LENGTH IN THE FIVE-YEAR PLAN, BUT IN RHETORICAL TERMS RATHER THAN WITH SPECIFIC COUNTER-INFLATIONARY MEASURES IN MIND). THE SPOKESMAN SEEMED TO FEEL THAT PRINTING A LITTLE LESS MONEY AND INCREASING IMPORTS WOULD SUFFICIENTLY DAMPEN PRESSURE. IT WAS OBVIOUS THAT NO ONE HAD SPECIFICALLY FOCUSED ON THE INFLATIONARY PRESSURES THAT WOULD BE GENERATED BY A SIZEABLE INFUSION OF FOREIGN CREDITS OVER THE FIVE-YEAR PERIOD.

8. IN RESPONSE TO QUESTION ON HOW PRESENT REFORMS ARE BEING IMPLEMENTED, THE GUB SPOKESMAN MERELY RECITED THE GENERAL FEATURES OF THE COMMODITY AND SERVICES TAX AND REPEATED THE OFT QUOTED FIGURE OF 1 BILLION IN ADDITIONAL REVENUE EXPECTED FROM THE TAX. THEY COULD PROVIDE NO DATA ON ACTUAL REVENUE INCOME OR PRICE ADJUSTMENTS.

9. IN GENERAL, THE GUB PARTICIPANTS GAVE THE IMPRESSION THAT THE GUB ATTITUDE IS THAT ENOUGH HAS BEEN DONE, I.E. NO FURTHER ECONOMIC REFORMS ARE NECESSARY AND NO ADDITIONAL DATA OR DETAILS NEED BE SUPPLIED TO POTENTIAL DONOR GOVERNMENTS. FURTHER, THEY SEEMED TO HAVE THE IDEA THAT SOMEHOW, THROUGH SOME MECHANISM THEY DID NOT FULLY UNDERSTAND, FOREIGN FUNDS WOULD BEGIN TO FLOW INTO BURMA TO FINANCE THE GUB DEVELOPMENT PLAN AS SOON

AS THEY WENT THROUGH THE FORMALITY OF A MEETING WITH DONOR GOVERNMENTS.

10. AS THE RESULT OF THE DISCUSSION, WE FOUND NOTHING TO ALTER THE EMBASSY'S EARLIER RECOMMENDATIONS THAT THE U.S. MAINTAIN A MOST CAUTIOUS ATTITUDE TOWARD ACTIVE PARTICIPATION IN THE CONSULTATIVE GROUP AND THAT WE CONTINUE TO INSIST ON ACTUAL PERFORMANCE AND DATA RATHER THAN PROMISES OR PROJECTIONS.

11. JUDGING FROM THE REMARKS OF OTHER ATTENDEES, THE GUB
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FACES CONSIDERABLE DIFFICULTY AT THE TOKYO MEETING. IT IS TRUE THAT DR. MAUNG SHEIN IS A MUCH MORE EFFECTIVE SPEAKER THAN U AYE HLAING BUT UNLESS HE IS ARMED WITH MORE FACTS AND FIGURES THAN SEEMED TO BE THE CASE IN THIS BRIEFING, HE RISKS BEING CUT TO RIBBONS. THE EMBASSY INTENDS TO MAKE THIS POINT IN DISCUSSIONS WITH GUB OFFICIALS. END COMMENT.
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